

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2008

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of March 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2008, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 14 and 69 through 73, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan's basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.L.C." in a cursive, stylized font.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 8, 2008

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2008. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$17,540,288. This is an increase of \$897,572 from March 31, 2007. This resulted from an increase in total assets of \$1,679,720 (or 8.7%) and an increase in liabilities of \$782,148 (29.8%). The increase in net assets resulted primarily from an increase in net capital assets due to street projects completed with state and local funding. Net assets for our business-type activities were \$10,545,733, a decrease of \$154,171 from 2007, while net assets in our governmental activities were \$6,994,555, an increase of \$1,051,743.
- The City's expenses for the year totaled \$9,926,262 an increase of \$1,302,191 (15%) over 2007. Revenues from all sources were \$10,823,834, an increase of \$1,044,943 (10.7%) from 2007.
- In the City's business type activities, total revenues were \$5,395,099 an increase of 8% over the previous year. Business-type activity revenues decreased slightly as a percentage of total revenues to 50% from 51% the previous year.
- In 2007 the City created a new special revenue fund, the Mary Cretens Trust fund, to account for the activity related to the annual donation to be received from former City resident Dr. Mary Cretens.
- The General Fund finished the year with an increase, and ending fund balance of \$166,775. This was after revenues of \$2,296,367 compared to \$2,169,651 in 2007, and expenditures of \$2,434,016 compared to expenditures of \$2,394,586 in 2007.
- The City also realized the substantial completion of three major projects for 2008 as well as completion of the fishing pier.

USING THIS REPORT

This annual report consist of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues, charges for services and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Land Development Fund, Gladstone Wireless Broadband and Economic Development Corporation are reported here.

The City also presents the Gladstone Housing Commission, a legally separate component unit, separately from the financial information of the City. A separately audited financial statement is available for the Housing Commission from their administrative offices.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City’s services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's combined net assets increased by \$897,572.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Current and other assets	\$ 736,024	\$ 840,979	\$ 3,377,696	\$ 3,577,923
Capital assets (net)	7,161,492	7,978,450	7,987,071	8,544,651
Total Assets	<u>7,897,516</u>	<u>8,819,429</u>	<u>11,364,767</u>	<u>12,122,574</u>
Long-term debt outstanding	1,288,888	1,136,013	464,286	215,055
Other liabilities	665,816	688,861	200,577	1,361,786
Total Liabilities	<u>1,954,704</u>	<u>1,824,874</u>	<u>664,863</u>	<u>1,576,841</u>
Net Assets:				
Invested in capital assets, net of related debt	5,872,604	6,842,437	7,522,785	7,182,865
Restricted assets:				
Expendable	27,569	30,055	-	-
Nonexpendable	230,326	232,603	-	-
Unrestricted	(187,687)	(110,540)	3,177,119	3,362,868
Total net assets	<u>\$ 5,942,812</u>	<u>\$ 6,994,555</u>	<u>\$ 10,699,904</u>	<u>\$ 10,545,733</u>

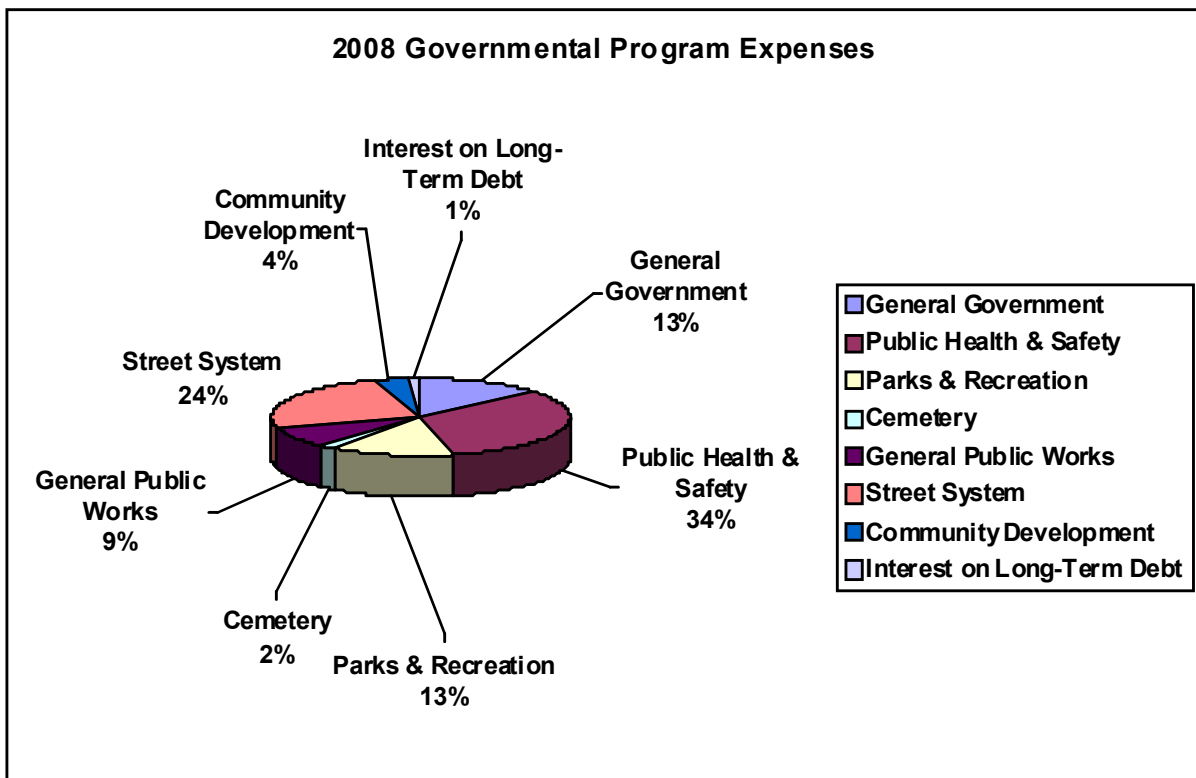
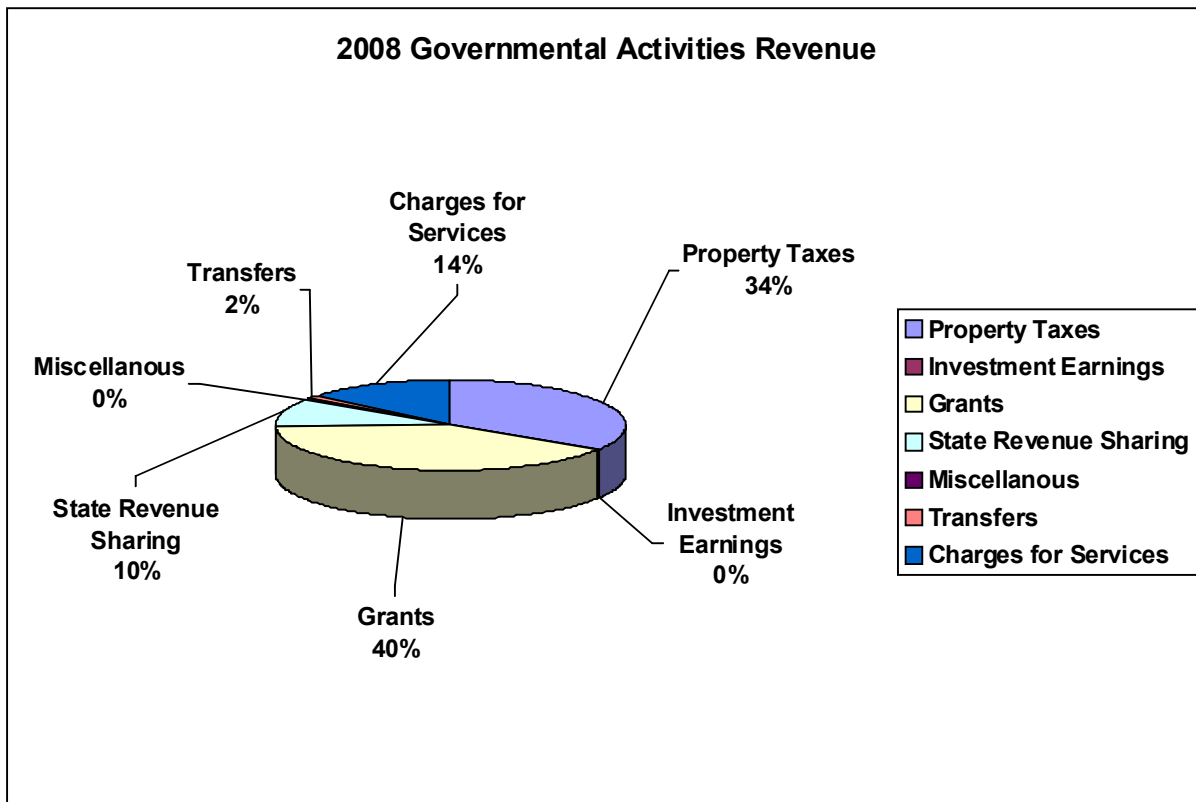
Net assets of the City's governmental activities stood at \$6,994,555, up from \$5,942,812 in 2007 (+17.7%). Total of the governmental activities assets increased by 11.7%, and total liabilities decreased by 6.6%. The ratio of assets to liabilities rose from 4.04 in 2007 to 4.83 in 2008.

Net assets in our business-type activities stood at \$10,545,733, down from \$10,699,904 in 2007. Total assets increased to \$12,122,574 from \$11,364,767 in 2007, while liabilities increased from \$664,863 in 2007 to \$1,576,841 in 2008 (+137%). The primary increase in liabilities was due to a bond taken out to construct a sludge storage tank in the amount of \$1,090,718 in order to comply with MDEQ requirements. Unrestricted net assets increased from \$3,177,119 to \$3,362,868, while the amount invested in capital assets (net of related debt) decreased from \$7,522,785 in 2007 to \$7,182,865 in 2008. In summary, the net assets of the business lines became a little more liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Governmental Activities				
Revenues:				
Program Revenues:				
Charges for services	\$ 647,731	\$ 749,866	\$ 4,648,477	\$ 5,284,333
Operating grants	579,930	783,181	3,612	-
Capital grants	1,225,242	1,444,368	249,659	16,520
General Revenues:				
Property taxes	1,748,177	1,874,013	-	-
State revenue sharing	547,667	538,973	-	-
Unrestricted grants	21,584	5,519	-	-
Unrestricted investment earnings	10,188	11,995	81,126	93,356
Miscellaneous	10,265	18,277	-	890
Total Revenues	<u>4,790,784</u>	<u>5,426,192</u>	<u>4,982,874</u>	<u>5,395,099</u>
Program Expenses:				
General government	518,319	596,255	-	-
Public health & safety	1,387,141	1,480,542	-	-
Parks & recreation	521,208	582,046	-	-
Cemetery	55,785	89,831	-	-
General public works	325,334	401,117	-	-
Street system	1,169,655	1,092,430	-	-
Community development	169,678	156,988	-	-
Interest on long-term debt	73,707	61,899	-	-
Electric	-	-	3,155,949	3,848,846
Wastewater	-	-	600,918	771,213
Water	-	-	529,640	568,896
Land development	-	-	19,297	189,071
Gladstone wireless	-	-	80,188	69,691
Economic development	-	-	17,252	17,437
Total Expenses	<u>4,220,827</u>	<u>4,461,108</u>	<u>4,403,244</u>	<u>5,465,154</u>
Excess (deficiency) before transfers and contributions	569,957	965,084	579,630	(70,055)
Transfers	130,530	84,116	(130,530)	(84,116)
Contributions to permanent fund	<u>5,233</u>	<u>2,543</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	705,720	1,051,743	449,100	(154,171)
Net assets - beginning	<u>5,237,092</u>	<u>5,942,812</u>	<u>10,250,804</u>	<u>10,699,904</u>
Net assets - ending	<u>\$ 5,942,812</u>	<u>\$ 6,994,555</u>	<u>\$ 10,699,904</u>	<u>\$ 10,545,733</u>

Governmental Activities



The City's total revenues were \$10,823,834, up from \$9,778,891 in 2007 (an increase of 11%). The cost of all programs and services was \$9,926,262, up from \$8,624,071 in 2007 (an increase of 15%). For 2008, there was an excess of revenues over expenses of \$897,572, compared to an excess of revenues over expenses of \$1,154,820 in 2007. The increase in revenue is due to a more stable position of the General Fund, grants and rate increases in the enterprise funds. Due to this increased revenue the City allowed a few capital outlay projects that had been cut in previous years.

Governmental Activities

Revenues for the City's governmental activities totaled \$5,512,851, up 12% from \$4,926,547 in 2007. Expenses increased by 5.79% (\$240,281) with the largest percentage increase (15%) in the general government.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2007	2008	2007	2008
Public health & safety	\$ 1,387,141	\$ 1,480,542	\$ 1,104,789	\$ 1,171,568
Street systems	1,169,655	1,092,430	(174,619)	(134,973)
Parks & recreation	521,208	582,046	126,193	242,248
General public works	325,334	401,117	11,171	111,308
General government	518,319	596,255	518,319	440,454
Totals	<u>\$ 3,921,657</u>	<u>\$ 4,152,390</u>	<u>\$ 1,585,853</u>	<u>\$ 1,830,605</u>

Most of the governmental activity increases are due to rate of inflation. The largest net change was in the street system due to the North Bluff Drive, 9th Street and Minneapolis Avenue projects receiving a large part of the funding from the State of Michigan.

Business-Type Activities

Revenues for the City's business-type activities totaled \$5,310,983, up from \$4,982,874 in 2007 (+6.6%). The primary reason for the increase was due to increased utility rates for the water, waste water and electric utilities which were in effect August 2007. Business-type activity expenses increased by 24% and can be attributed in large part to inflation as well as an increase in the cost of purchased power for the electric utility.

THE CITY'S FUNDS

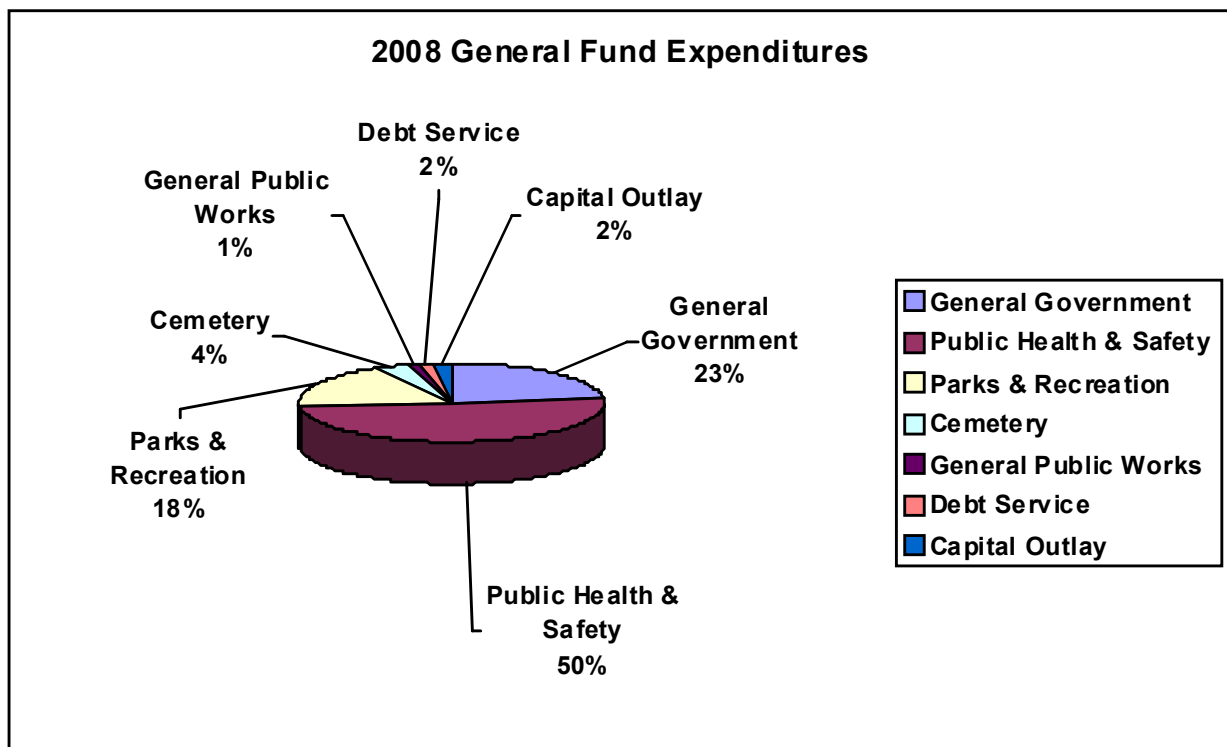
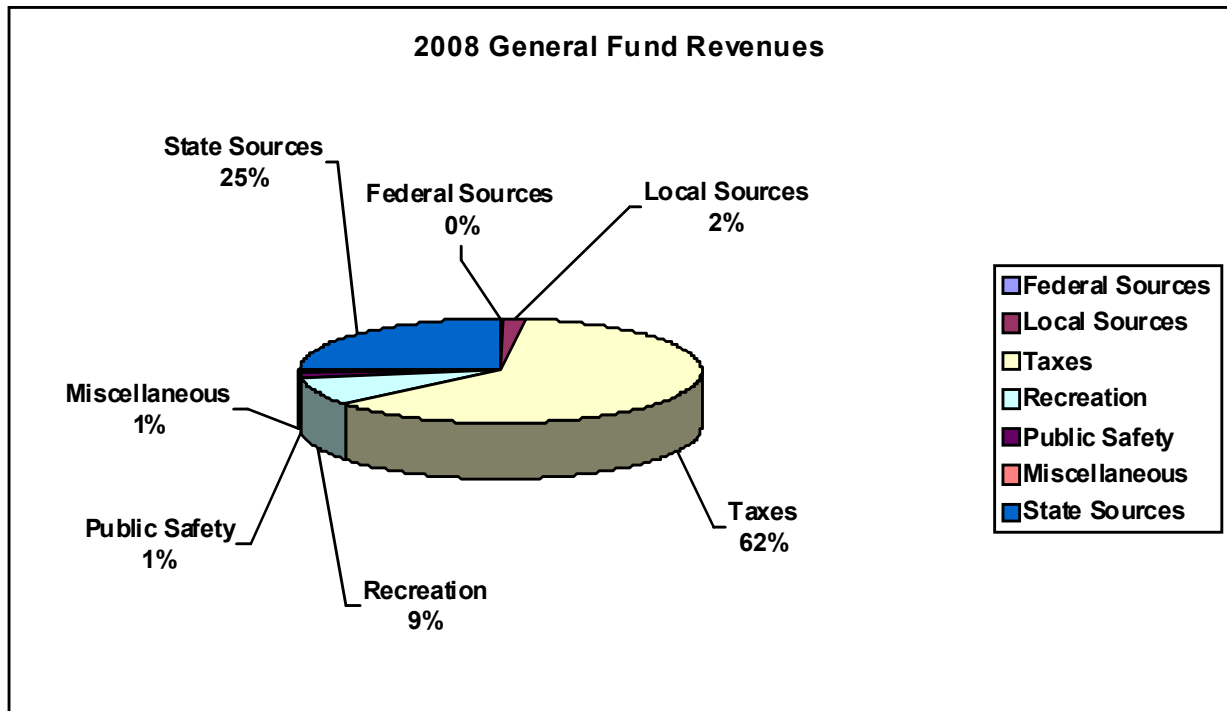
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$297,506, a decrease of \$34,601 from 2007. This was due primarily to the City paying for its share of the street paving projects.

General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. The final revenue number of \$2,296,367 was less than 1% under the amended budget. Expenditures were less than the amended budget by \$147,711. The final expenditure number of \$2,478,229 was 5.6% less than the revised expenditure estimate of \$2,625,940. Total expenditures exceeded revenues by \$73,889 for the year.

The final revenue number was \$126,716 more than 2007 and expenditures were \$63,643 lower than 2007. The additional revenue from 2008 is from the Dr. Mary Cretens Trust Fund. This fund reimburses the General Fund for parks maintenance, cemetery maintenance, 4th of July and a few other activities.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2008, the City had \$16,523,101, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was up from \$15,148,563 in 2007. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2007	2008	2007	2008
Land	\$ 1,601,627	\$ 1,619,627	\$ 254,513	\$ 236,513
Construction in progress	76,479	-	143,212	-
Land Improvements	101,032	87,306	-	-
Buildings	1,728,753	1,629,342	295,790	282,577
Machinery & Equipment	763,671	755,698	151,760	118,460
Infrastructure - Road System	2,638,889	3,029,451	-	-
Infrastructure - Other	251,041	857,026	-	-
Distribution/Collection System	-	-	7,141,796	7,907,101
Total	<u>\$ 7,161,492</u>	<u>\$ 7,978,450</u>	<u>\$ 7,987,071</u>	<u>\$ 8,544,651</u>

DEBT

At year-end the City had \$2,497,799 in bonds and notes outstanding. This is an increase of \$744,625 (42%) in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$841,490 is well below the 10% limit.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
General obligation bonds/ notes(backed by the City)	\$ 871,828	\$ 841,490	\$ 16,397	\$ 11,068	\$ 888,225	\$ 852,558
Revenue bonds and notes (backed by specific tax and fee revenues)	417,060	294,523	447,889	1,350,718	864,949	1,645,241
Totals	<u>\$ 1,288,888</u>	<u>\$ 1,136,013</u>	<u>\$ 464,286</u>	<u>\$ 1,361,786</u>	<u>\$ 1,753,174</u>	<u>\$ 2,497,799</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling in the State's weak economic environment, the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will continue to maintain all the services currently offered to our residents in the most efficient, cost-effective manner to continue to make our City the community of choice in the Upper Peninsula.

In general government the City has taken the necessary steps to ensure long-term fiscal health. We are seeing the fiscal benefits of the three positions that were eliminated in the previous year. Property taxes continue to increase at the rate of inflation. At the same time we have not increased the administrative fees on the other departments and have dramatically decreased reliance on business type activities. The downward trend in State Revenue Sharing continues for the City, the 2008 amount of revenue sharing was 2% below the actual amount in 2007.

The Major Street and Local Street funds had a tough year. The Local Street in the past has depended on a transfer of funds from the Major Street. This year that transfer was not possible due to the three major projects the Major Street undertook. These projects were North Bluff Drive, 9th Street and Minneapolis Avenue. All three projects were federal aid projects. These federal aid projects were awarded to the City earlier than expected. The total cost of these projects were \$253,559 which could have easily been budgeted for over the next three fiscal years. The next three years ACT 51 money will cover this deficit and no projects will be considered in these two funds over the next three years.

Business type activities budgets should continue to improve. The City Commission has already approved rates for the 2009 fiscal year; the additional revenue generated by these increases will only further improve the fiscal condition of all enterprise funds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
March 31, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (306,254)	\$ 1,183,277	\$ 877,023	\$ 98,346
Receivables :				
Accounts	133,445	-	133,445	161,209
Utilities	-	834,629	834,629	-
Special assessments	121,158	18,397	139,555	-
Notes	48,203	13,696	61,899	-
Interest	87	312	399	-
Miscellaneous	30,638	63,270	93,908	-
Due from other governmental units	307,071	-	307,071	-
Prepaid expense	6,474	-	6,474	13,031
Inventory	17,020	285,406	302,426	-
Total current assets	<u>357,842</u>	<u>2,398,987</u>	<u>2,756,829</u>	<u>272,586</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	262,603	64,000	326,603	-
Investments	-	686,294	686,294	143,065
Notes receivable	220,534	193,079	413,613	-
Internal balances	-	226,550	226,550	-
Bond issuance costs	-	9,013	9,013	-
Capital assets	20,576,204	17,410,551	37,986,755	4,318,620
Accumulated depreciation	(12,597,754)	(8,865,900)	(21,463,654)	(2,883,211)
Total noncurrent assets	<u>8,461,587</u>	<u>9,723,587</u>	<u>18,185,174</u>	<u>1,578,474</u>
Total assets	<u>\$ 8,819,429</u>	<u>\$ 12,122,574</u>	<u>\$ 20,942,003</u>	<u>\$ 1,851,060</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 76,601	\$ 70,224	\$ 146,825	\$ 19,631
Accrued interest	24,879	1,500	26,379	-
Due to other governmental units	54,964	-	54,964	-
Customer deposits	-	52,316	52,316	-
Deferred revenue	48,465	-	48,465	-
Other liabilities	3,232	-	3,232	70,260
Compensated absences	29,718	18,203	47,921	-
Bonds payable	175,000	175,000	350,000	-
Notes payable	44,102	5,626	49,728	-
Total current liabilities	<u>456,961</u>	<u>322,869</u>	<u>779,830</u>	<u>89,891</u>
Noncurrent liabilities:				
Compensated absences	118,872	72,812	191,684	-
Due to other governmental units	105,580	-	105,580	-
Internal balances	226,550	-	226,550	-
Bonds payable	750,000	1,175,718	1,925,718	-
Notes payable	166,911	5,442	172,353	-
Total noncurrent liabilities	<u>1,367,913</u>	<u>1,253,972</u>	<u>2,621,885</u>	<u>-</u>
Total liabilities	<u>\$ 1,824,874</u>	<u>\$ 1,576,841</u>	<u>\$ 3,401,715</u>	<u>\$ 89,891</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 6,842,437	\$ 7,182,865	\$ 14,025,302	\$ 1,435,409
Restricted for:				
Expendable:				
City improvement	30,055	-	30,055	-
Nonexpendable:				
Cemetery perpetual care	232,603	-	232,603	-
Unrestricted	(110,540)	3,362,868	3,252,328	325,760
Total net assets	<u>\$ 6,994,555</u>	<u>\$ 10,545,733</u>	<u>\$ 17,540,288</u>	<u>\$ 1,761,169</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit Housing Commission
		Fees. Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 596,255	\$ 74,453	\$ 40,036	\$ 41,312	\$ (440,454)	\$ -	\$ (440,454)	\$ -
Public health and safety	1,480,542	105,193	194,781	9,000	(1,171,568)	-	(1,171,568)	-
Parks and recreation	582,046	233,901	63,193	527,200	242,248	-	242,248	-
Cemetery	89,831	28,158	30,096	-	(31,577)	-	(31,577)	-
General public works	401,117	216,227	-	73,582	(111,308)	-	(111,308)	-
Street system	1,092,430	-	455,075	772,328	134,973	-	134,973	-
Community development	156,988	91,934	-	20,946	(44,108)	-	(44,108)	-
Interest on long-term debt	61,899	-	-	-	(61,899)	-	(61,899)	-
Total governmental activities	4,461,108	749,866	783,181	1,444,368	(1,483,693)	-	(1,483,693)	-
Business-type activities:								
Electric utility	3,848,846	3,822,657	-	2,058	-	(24,131)	(24,131)	-
Waste water utility	771,213	748,130	-	495	-	(22,588)	(22,588)	-
Water utility	568,896	631,969	-	13,967	-	77,040	77,040	-
Land development	189,071	-	-	-	-	(189,071)	(189,071)	-
Economic development	17,437	34,726	-	-	-	17,289	17,289	-
Wireless broadband	69,691	46,851	-	-	-	(22,840)	(22,840)	-
Total business-type activities	5,465,154	5,284,333	-	16,520	-	(164,301)	(164,301)	-
Total primary government	\$ 9,926,262	\$ 6,034,199	\$ 783,181	\$ 1,460,888	(1,483,693)	(164,301)	(1,647,994)	-
Component unit:								
Housing commission	\$ 565,814	\$ 271,964	\$ 133,455	\$ 10,800	-	-	-	(149,595)
General revenues:								
Property taxes					1,874,013	-	1,874,013	-
State revenue sharing					538,973	-	538,973	-
Grants and contributions not restricted to specific programs					5,519	-	5,519	-
Contributions to permanent fund					2,543	-	2,543	-
Unrestricted investment earnings					11,995	93,356	105,351	11,429
Miscellaneous					18,277	890	19,167	31,224
Transfers					84,116	(84,116)	-	-
Total general revenues and transfers					2,535,436	10,130	2,545,566	42,653
Changes in net assets					1,051,743	(154,171)	897,572	(106,942)
Net assets - beginning					5,942,812	10,699,904	16,642,716	1,868,111
Net assets - ending					\$ 6,994,555	\$ 10,545,733	\$ 17,540,288	\$ 1,761,169

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	217,252	(182,868)	(85,878)
Receivables:			
Accounts	80,652	1,408	-
Special assessments	9,971	84,299	26,888
Notes	-	-	-
Interest	24	-	-
Miscellaneous	30,638	-	-
Prepaid expenditures	6,474	-	-
Due from other funds	-	869	621
Due from other governmental units	112,265	52,297	21,232
Inventory	4,828	12,192	-
	<u>462,104</u>	<u>(31,803)</u>	<u>(37,137)</u>
Total assets	<u>\$ 462,104</u>	<u>\$ (31,803)</u>	<u>\$ (37,137)</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 41,003	\$ 3,742	\$ 829
Due to other funds	162,635	46,013	19,889
Due to other governmental units	-	-	-
Deferred revenue	88,459	-	-
Other liabilities	3,232	-	-
	<u>295,329</u>	<u>49,755</u>	<u>20,718</u>
Total liabilities	<u>295,329</u>	<u>49,755</u>	<u>20,718</u>
Fund balances:			
Reserved for:			
Inventory	4,828	12,192	-
Prepaid expense	6,474	-	-
Cemetery perpetual care	-	-	-
City improvement	-	-	-
Unreserved	155,473	(93,750)	(57,855)
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
	<u>166,775</u>	<u>(81,558)</u>	<u>(57,855)</u>
Total fund balances	<u>166,775</u>	<u>(81,558)</u>	<u>(57,855)</u>
Total liabilities and fund balances	<u>\$ 462,104</u>	<u>\$ (31,803)</u>	<u>\$ (37,137)</u>

See accompanying notes to financial statements.

<u>Revolving Loan</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 262,603	\$ 262,603
83,924	(120,726)	(32,082)	(120,378)
-	-	51,385	133,445
-	-	-	121,158
268,737	-	-	268,737
8	-	55	87
-	-	-	30,638
-	-	-	6,474
-	-	-	1,490
-	21,822	99,455	307,071
-	-	-	17,020
<u>\$ 352,669</u>	<u>\$ (98,904)</u>	<u>\$ 381,416</u>	<u>\$ 1,028,345</u>
\$ -	\$ 3,750	\$ 15,694	\$ 65,018
-	-	-	228,537
-	-	54,964	54,964
268,737	-	21,892	379,088
-	-	-	3,232
<u>268,737</u>	<u>3,750</u>	<u>92,550</u>	<u>730,839</u>
-	-	-	17,020
-	-	-	6,474
-	-	232,603	232,603
-	-	30,055	30,055
83,932	(102,654)	-	(14,854)
-	-	26,208	26,208
<u>83,932</u>	<u>(102,654)</u>	<u>288,866</u>	<u>297,506</u>
<u>\$ 352,669</u>	<u>\$ (98,904)</u>	<u>\$ 381,416</u>	<u>\$ 1,028,345</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2008

Total fund balances for governmental funds \$ 297,506

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,619,627	
Land improvements	161,686	
Buildings	2,843,015	
Machinery and equipment	1,018,254	
Infrastructure - road system	11,966,582	
Infrastructure - other	1,052,157	
Accumulated depreciation	<u>(11,137,281)</u>	
Total capital assets		7,524,040

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

236,672

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (24,879)	
Bonds payable	(925,000)	
Notes payable	(190,237)	
Due to other governmental units	(105,580)	
Compensated absences	<u>(148,590)</u>	(1,394,286)

A prepaid debt service payment which was recorded as a prepaid expense in the fund financial statements, has been shown as a reduction in the outstanding debt balance.

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and has been recognized as revenue in the statement of activities have been removed from the statement of net assets.

330,623

Total net assets of governmental activities

\$ 6,994,555

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2008

	General Fund	Major Street	Local Street
REVENUES:			
Federal sources	\$ 9,000	\$ -	\$ -
State sources	546,884	914,788	139,694
Local sources	35,167	92,718	12,165
Taxes	1,364,790	-	-
Charges for services	74,453	-	-
Recreation	206,742	-	-
Public safety	31,116	-	-
Loan repayment	-	-	-
Lease income	-	-	-
Interest income	3,205	772	693
Loan proceeds	8,710	-	-
Miscellaneous	16,300	5,871	3,797
	<u>2,296,367</u>	<u>1,014,149</u>	<u>156,349</u>
Total revenues			
EXPENDITURES:			
General government	569,429	-	-
Public health and safety	1,216,350	-	-
Parks and recreation	442,647	-	-
Cemetery	88,260	-	-
General public works	33,413	-	-
Street system	-	1,192,423	221,485
Community development	-	-	-
Capital outlay	45,494	-	-
Debt service:			
Principal	29,034	-	-
Interest and other charges	9,389	-	-
	<u>2,434,016</u>	<u>1,192,423</u>	<u>221,485</u>
Total expenditures			
Excess revenues (expenditures)	<u>(137,649)</u>	<u>(178,274)</u>	<u>(65,136)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	255,751	-	-
Transfers out	(44,213)	-	-
	<u>211,538</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)			
Net changes in fund balances	73,889	(178,274)	(65,136)
Fund balances - beginning	<u>92,886</u>	<u>96,716</u>	<u>7,281</u>
Fund balances - ending	<u><u>\$ 166,775</u></u>	<u><u>\$ (81,558)</u></u>	<u><u>\$ (57,855)</u></u>

See accompanying notes to financial statements.

Revolving Loan	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 169,879	\$ 178,879
-	505,000	9,227	2,115,593
-	15,200	176,527	331,777
-	-	509,223	1,874,013
-	-	212,461	286,914
-	-	-	206,742
-	-	-	31,116
45,474	-	-	45,474
-	-	97,034	97,034
14,334	-	7,325	26,329
-	1,027,829	-	1,036,539
-	7,000	5,733	38,701
<u>59,808</u>	<u>1,555,029</u>	<u>1,187,409</u>	<u>6,269,111</u>
-	-	-	569,429
-	-	191,908	1,408,258
-	-	-	442,647
-	-	265	88,525
-	-	358,611	392,024
-	-	9,227	1,423,135
1,914	-	154,929	156,843
-	1,611,556	-	1,657,050
-	-	155,000	184,034
-	-	56,495	65,884
<u>1,914</u>	<u>1,611,556</u>	<u>926,435</u>	<u>6,387,829</u>
<u>57,894</u>	<u>(56,527)</u>	<u>260,974</u>	<u>(118,718)</u>
-	12,548	113,375	381,674
-	-	(253,344)	(297,557)
-	12,548	(139,969)	84,117
57,894	(43,979)	121,005	(34,601)
<u>26,038</u>	<u>(58,675)</u>	<u>167,861</u>	<u>332,107</u>
<u>\$ 83,932</u>	<u>\$ (102,654)</u>	<u>\$ 288,866</u>	<u>\$ 297,506</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2008

Net changes in fund balances - total governmental funds	\$ (34,601)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,515,400) exceeded depreciation expense (\$812,670)	702,730
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An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	(15,364)
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:

Bond principal	155,000	
Note principal	41,585	196,585

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities.	32,126
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Proceeds from the issuance of long-term debt which is recorded as revenue in the fund financial statements, but is recorded as a liability in the Statement of Net Assets.	(8,710)
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Net transfer of capital assets from business-type activities	190,306
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(15,314)	
Accrued interest on bonds	3,985	(11,329)

Changes in net assets of governmental activities	\$ 1,051,743
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
March 31, 2008

	Electric Utility	Waste Water Utility	Water Utility
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,372,231	\$ 156,176	\$ (270,307)
Receivables:			
Utilities	586,894	148,073	99,662
Special assessments	-	10,408	7,989
Notes	-	-	-
Interest	264	48	-
Miscellaneous	2,135	13,224	46,982
Inventory	285,406	-	-
Total current assets	<u>2,246,930</u>	<u>327,929</u>	<u>(115,674)</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	-	30,500	33,500
Investments	686,294	-	-
Notes receivable	-	-	-
Due from other funds	369,369	993	993
Bond issuance costs	-	4,376	4,637
Capital assets	7,177,729	5,245,184	4,662,095
Less accumulated depreciation	<u>(3,313,945)</u>	<u>(2,261,210)</u>	<u>(3,164,544)</u>
Total noncurrent assets	<u>4,919,447</u>	<u>3,019,843</u>	<u>1,536,681</u>
Total assets	<u><u>\$ 7,166,377</u></u>	<u><u>\$ 3,347,772</u></u>	<u><u>\$ 1,421,007</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 9,644	\$ 49,537	\$ 10,010
Accrued interest	-	1,500	-
Customer deposits	52,316	-	-
Compensated absences	6,346	5,810	6,047
Bonds payable	-	105,000	70,000
Notes payable	-	5,626	-
Total current liabilities	<u>68,306</u>	<u>167,473</u>	<u>86,057</u>
Noncurrent liabilities:			
Due to other funds	-	-	-
Compensated absences	25,384	23,240	24,188
Bonds payable	-	1,110,718	65,000
Notes payable	-	5,442	-
Total noncurrent liabilities	<u>25,384</u>	<u>1,139,400</u>	<u>89,188</u>
Total liabilities	<u><u>\$ 93,690</u></u>	<u><u>\$ 1,306,873</u></u>	<u><u>\$ 175,245</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,863,784	\$ 1,757,188	\$ 1,362,551
Unrestricted	<u>3,208,903</u>	<u>283,711</u>	<u>(116,789)</u>
Total net assets	<u><u>\$ 7,072,687</u></u>	<u><u>\$ 2,040,899</u></u>	<u><u>\$ 1,245,762</u></u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ (74,823)	\$ 1,183,277	\$ (185,876)
-	834,629	-
-	18,397	-
13,696	13,696	-
-	312	-
929	63,270	-
-	285,406	-
<u>(60,198)</u>	<u>2,398,987</u>	<u>(185,876)</u>
-	64,000	-
-	686,294	-
193,079	193,079	-
-	371,355	497
-	9,013	-
325,543	17,410,551	1,914,883
<u>(126,201)</u>	<u>(8,865,900)</u>	<u>(1,460,473)</u>
<u>392,421</u>	<u>9,868,392</u>	<u>454,907</u>
<u>\$ 332,223</u>	<u>\$ 12,267,379</u>	<u>\$ 269,031</u>
\$ 1,033	\$ 70,224	\$ 11,583
-	1,500	-
-	52,316	-
-	18,203	-
-	175,000	-
-	5,626	13,039
<u>1,033</u>	<u>322,869</u>	<u>24,622</u>
144,805	144,805	-
-	72,812	-
-	1,175,718	-
-	5,442	7,737
<u>144,805</u>	<u>1,398,777</u>	<u>7,737</u>
<u>\$ 145,838</u>	<u>\$ 1,721,646</u>	<u>\$ 32,359</u>
\$ 199,342	\$ 7,182,865	\$ 433,634
<u>(12,957)</u>	<u>3,362,868</u>	<u>(196,962)</u>
<u>\$ 186,385</u>	<u>\$ 10,545,733</u>	<u>\$ 236,672</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended March 31, 2008

	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:			
Charges for services	\$ 3,641,185	\$ 721,556	\$ 622,195
Miscellaneous	181,472	26,574	9,774
Total operating revenue	<u>3,822,657</u>	<u>748,130</u>	<u>631,969</u>
OPERATING EXPENSES:			
Salaries and fringes	536,650	333,617	299,633
Supplies	56,171	36,021	49,408
Contracted services	76,158	105,523	21,924
Repairs and maintenance	-	22,222	3,418
Utilities	19,913	37,725	55,569
Purchased power	2,615,983	-	-
Rent	555	10,612	3,547
Memberships and dues	4,963	4,174	543
Travel	556	74	48
Insurance	43,049	8,723	12,656
Education and training	935	964	2,528
In lieu of taxes	80,000	14,400	14,400
Depreciation	228,165	94,921	93,792
Miscellaneous	185,748	11,411	8,761
Total operating expenses	<u>3,848,846</u>	<u>680,387</u>	<u>566,227</u>
Operating income (loss)	<u>(26,189)</u>	<u>67,743</u>	<u>65,742</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	71,721	9,624	2,359
Gain (loss) on sale of capital assets	890	(74,451)	-
Interest expense	-	(16,375)	(2,669)
Total nonoperating revenue (expense)	<u>72,611</u>	<u>(81,202)</u>	<u>(310)</u>
Income (loss) before transfers and contributions	46,422	(13,459)	65,432
Capital contributions	2,058	495	13,967
Transfer in	20,556	144,350	138,274
Transfer out	(77,250)	(44,879)	(47,459)
Change in net assets	(8,214)	86,507	170,214
Total net assets - beginning	<u>7,080,901</u>	<u>1,954,392</u>	<u>1,075,548</u>
Total net assets - ending	<u>\$ 7,072,687</u>	<u>\$ 2,040,899</u>	<u>\$ 1,245,762</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ 46,501	\$ 5,031,437	\$ 352,752
35,076	252,896	7,528
81,577	5,284,333	360,280
8,693	1,178,593	106,485
63,466	205,066	74,691
36,455	240,060	9,319
-	25,640	58,802
1,364	114,571	1,419
-	2,615,983	11,693
26	14,740	985
-	9,680	-
-	678	-
222	64,650	17,005
-	4,427	564
-	108,800	4,500
40,417	457,295	86,184
125,556	331,476	731
276,199	5,371,659	372,378
(194,622)	(87,326)	(12,098)
9,652	93,356	-
-	(73,561)	(2,214)
-	(19,044)	(1,052)
9,652	751	(3,266)
(184,970)	(86,575)	(15,364)
-	16,520	-
90,272	393,452	-
(307,980)	(477,568)	-
(402,678)	(154,171)	(15,364)
589,063	10,699,904	246,236
\$ 186,385	\$ 10,545,733	\$ 230,872

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2008

	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,578,551	\$ 695,150	\$ 607,558
Payments to suppliers	(3,029,267)	(230,547)	(172,430)
Payments for wages and related benefits	(534,770)	(328,083)	(298,591)
Other receipts (payments)	181,472	26,574	9,774
Net cash provided (used) by operating activities	195,986	163,094	146,311
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(56,694)	99,471	90,815
Cash received (paid) on customer deposits	(3,076)	-	-
Net cash provided (used) by noncapital financing activities	(59,770)	99,471	90,815
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	(102,965)	(1,211,751)	(181,166)
Principal paid on debt instruments	-	(65,329)	(65,000)
Interest paid on debt instruments	-	(16,938)	(2,669)
Proceeds from sale of capital assets	-	-	-
Proceed from issuance of debt instrument	-	1,027,829	-
Capital contributions	2,058	495	13,967
Net cash provided (used) by capital and related financing activities	(100,907)	(265,694)	(234,868)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net transfers from investments	(24,820)	-	-
Interest earnings	71,721	9,624	2,359
Net cash provided (used) by investing activities	46,901	9,624	2,359
Net increase (decrease) in cash and equivalents	82,210	6,495	4,617
Cash and equivalents, beginning of year	1,290,021	180,181	(241,424)
Cash and equivalents, end of year	\$ 1,372,231	\$ 186,676	\$ (236,807)
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (26,189)	\$ 67,743	\$ 65,742
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	228,165	99,297	98,429
Changes in assets and liabilities:			
(Increase) decrease in receivables	(79,339)	(26,406)	(14,637)
(Increase) decrease in due from other funds	16,705	-	-
(Increase) decrease in inventory	54,068	-	-
(Increase) decrease in prepaid	1,725	-	-
Increase (decrease) in accounts payable	(1,029)	16,926	(4,265)
Increase (decrease) in accrued payroll	1,880	5,534	1,042
Increase (decrease) in due to other funds	-	-	-
Net cash provided by operating activities	\$ 195,986	\$ 163,094	\$ 146,311

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 93,688	\$ 4,974,947	\$ 352,752
(229,060)	(3,661,304)	(176,873)
(8,693)	(1,170,137)	(106,485)
583	218,403	7,528
(143,482)	361,909	76,922
(217,708)	(84,116)	-
-	(3,076)	-
(217,708)	(87,192)	-
(9,567)	(1,505,449)	-
-	(130,329)	(12,550)
-	(19,607)	(1,052)
417,015	417,015	
-	1,027,829	
-	16,520	
407,448	(194,021)	(13,602)
-	(24,820)	-
9,652	93,356	-
9,652	68,536	-
55,910	149,232	63,320
(130,733)	1,098,045	(249,196)
\$ (74,823)	\$ 1,247,277	\$ (185,876)
\$ (194,622)	\$ (87,326)	\$ (12,098)
40,417	466,308	86,184
73,612	(46,770)	-
-	16,705	-
-	54,068	-
-	1,725	-
(1,971)	9,661	2,836
-	8,456	-
(60,918)	(60,918)	-
\$ (143,482)	\$ 361,909	\$ 76,922

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 67,093
Receivables:	
Delinquent taxes	<u>86,668</u>
Total assets	<u><u>\$ 153,761</u></u>
LIABILITIES	
Due to other governmental units	<u><u>\$ 153,761</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services.

Component Units – In conformity with accounting principles generally accepted in the United States of America, the financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

Gladstone Housing Commission – The Housing Commission was formed by the City of Gladstone under Public Act 18 of 1933 for the purpose of providing safe and affordable housing for low income and elderly individuals. The City Commission appoints the board members to the Housing Commission, however, the City does not provide any financial assistance to the Housing Commission. The Housing Commission issues separately audited financial statements which can be obtained from the Gladstone Housing Commission at 217 Dakota Avenue, Gladstone, MI 49837.

The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See note P for additional information.

Delta Solid Waste Management Authority
1100 Delta Avenue
Gladstone, MI 49837

The accounting policies of the City of Gladstone conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria or the State of Michigan reporting requirements for Major and Local Street Funds:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The Revolving Loan Fund which accounts for activity relating to loans made to local business.

The Capital Projects Fund which accounts for activity relating to various capital projects being conducted by the City.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The City reports the following as major enterprise funds in accordance with the above criteria:

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less or where there is no loss of principal upon early withdrawal.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Electric Utility Fund and supplies inventory in the General Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$88,459 in the General Fund for prepaid service revenue and the sale of city residential lots, \$21,892 in the State Trunkline Fund for unspent grant proceeds, and advanced revenue collections and \$268,737 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.
- j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City’s policy to use restricted resources first.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, a public hearing is held to allow for public comment on the proposed budget and then the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Commission in March. Individual amendments were material in relation to the original appropriations which were amended.
- e. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Major Street Fund expenditures exceeded the appropriations in that fund by \$33,558.

- (1) The following funds had deficit unreserved fund balances/unrestricted net assets:

Governmental funds:		
Major Street	\$	93,750
Local Street		57,855
Capital Projects		102,654
Proprietary funds:		
Gladstone Wireless		190,173
Water Utility		116,789
Equipment Fund		196,962

Public Act 140 of 1971, as amended and Public Act 34 of 2001, as amended, requires the City to file a deficit elimination plan with the Department of Treasury for the fund deficits listed above.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	790
Deposits:			
Checking accounts	\$	1,114,929	
Certificate of Deposit		<u>155,000</u>	<u>1,269,929</u>
Total cash and equivalents			<u><u>\$ 1,270,719</u></u>
Government-wide Statement of Net Assets Presentation:			
Unrestricted	\$	877,023	
Restricted		<u>326,603</u>	\$ 1,203,626
Statement of Fiduciary Net Assets			<u>67,093</u>
Total cash and equivalents			<u><u>\$ 1,270,719</u></u>
Investments:			
U.S. government agency securities		\$	474,820
Upper Peninsula Public Power Agency			<u>211,474</u>
Total investments			<u><u>\$ 686,294</u></u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 40 risk disclosures for the City's cash deposits and investments are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 205,000	\$ 205,000
Uninsured	<u>1,093,808</u>	<u>1,065,719</u>
Total	<u>\$ 1,298,808</u>	<u>\$ 1,270,719</u>

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$1,093,808 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 474,820	Counter party

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the specific maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government and agency securities:		
Federal Home Loan Bank	\$ 250,078	10/4/2012
Federal Home Loan Mtg Corp	19,279	11/15/2012
Federal Home Loan Mtg Corp	205,463	2/12/2013
Total	<u>\$ 474,820</u>	

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limit the investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 474,820	AAA	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$232,572 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$30,031 for community maintenance and improvements as required by the nature of the fund.

During the fiscal year ended March 31, 2004, the City refinanced the 1994 waste water and water system revenue bonds, in part by issuing 2004 waste water and water system revenue bonds. As part of issuing the new bonds, the bond agreement calls for the City to establish and maintain separate depository accounts for bond and interest redemption and an account for replacement and improvement. Cash has been restricted in the following funds:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE C – CASH AND EQUIVALENTS AND INVESTMENTS (continued)

Waste Water Fund	\$	30,500
Water Fund		33,500

Investment in Upper Peninsula Public Power Agency

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$184,377 in cash and \$27,097 in equipment for a total investment of \$211,474. Neither UPPPA or ATC are publicly traded companies, therefore, the City has recorded this investment at cost, which the City feels approximates market value given the annual return on this investment.

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.80%
City of Crystal Falls	4.49%
City of Gladstone	7.10%
Marquette Board of Light and Power	70.16%
City of Negaunee	6.04%
City of Norway	7.41%
	<hr/>
Total	100.00%

UPPPA owns .50% of ATC, LLC.

NOTE D – PROPERTY TAXES

(1) Tax information:

Assessment Date. December 31
Taxes payable July 10
Taxes Delinquent March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE D – PROPERTY TAXES (continued)

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that delinquent real estate taxes be sold at public auction in July or November of the second year following the year of tax levy.

(2) Schedule of State Equalized Valuation and Taxable Values:

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE D – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2007, inclusive, the City and State valuations are the same.

(3) Annual tax rates (per \$1,000 valuation):

Year	City		Schools			Total	Community	County	I.S.D.	Total
	Tax	School *	Non-Homestead	State	Debt	Local Taxes				
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE D – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total Local	Community	County	I.S.D.	Total
			Non- Homestead	State	Debt	Taxes	College	Taxes		
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	3.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	61.5597

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

- (4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2008 were as follows:
General Fund \$1,160,186, Solid Waste Fund \$168,954 and DDA Fund capture from the City's levy was \$117,285.

NOTE E – LONG-TERM RECEIVABLES

Governmental Activities:

Revolving Loan Fund – The City has received various grants from the State of Michigan Small Cities Grant Program which it has loaned to local businesses on installment contracts for building and equipment acquisition. The primary purpose for the loans was job retention and creation within the City.

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2008 are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE E – LONG-TERM RECEIVABLES (continued)

Year Ending March 31	Amount
2009	\$ 48,203
2010	43,518
2011	54,120
2012	29,108
2013	30,448
Thereafter	63,340
Total	<u>\$ 268,737</u>

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2008 are as follows:

Year Ending March 31	Amount
2009	\$ 13,696
2010	13,851
2011	14,480
2012	15,154
2013	16,086
Thereafter	133,508
Total	<u>\$ 206,775</u>

The General Fund has also recorded accounts receivable in the amount of \$61,501 for the sale of residential lots.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE F – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2008, was as follows:

	Balance at April 1, 2007	Additions	Disposals	Balance at March 31, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,601,627	\$ 18,000	\$ -	\$ 1,619,627
Construction in progress	76,479	-	76,479	-
Total non-depreciable capital assets	<u>1,678,106</u>	<u>18,000</u>	<u>76,479</u>	<u>1,619,627</u>
Capital assets being depreciated:				
Land improvements	161,686	-	-	161,686
Buildings	2,970,466	24,470		2,994,936
Machinery and equipment	2,692,039	137,704	48,527	2,781,216
Infrastructure-road system	11,000,042	966,540	-	11,966,582
Infrastructure-other	319,361	732,796	-	1,052,157
Total depreciable capital assets	<u>17,143,594</u>	<u>1,861,510</u>	<u>48,527</u>	<u>18,956,577</u>
Total capital assets	<u>18,821,700</u>	<u>1,879,510</u>	<u>125,006</u>	<u>20,576,204</u>
Less accumulated depreciation:				
Land improvements	60,652	13,725	-	74,377
Buildings	1,241,715	123,879		1,365,594
Machinery and equipment	1,996,589	144,878	46,311	2,095,156
Infrastructure-road system	8,377,936	559,463	-	8,937,399
Infrastructure-other	68,319	56,909	-	125,228
Total accumulated depreciation	<u>11,745,211</u>	<u>898,854</u>	<u>46,311</u>	<u>12,597,754</u>
Net depreciable capital assets	<u>5,978,106</u>	<u>962,656</u>	<u>2,216</u>	<u>6,358,823</u>
Governmental activities capital assets, net	<u>\$ 7,656,212</u>	<u>\$ 980,656</u>	<u>\$ 78,695</u>	<u>\$ 7,978,450</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE F – CAPITAL ASSETS (continued)

	Balance at April 1, 2007	Additions	Disposals	Balance at March 31, 2008
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 254,513	\$ -	\$ 18,000	\$ 236,513
Construction in progress	143,212	8,281	143,212	8,281
Total non-depreciable capital assets	<u>397,725</u>	<u>8,281</u>	<u>161,212</u>	<u>244,794</u>
Capital assets being depreciated:				
Buildings	341,989	-	-	341,989
Machinery and equipment	696,783	20,457	73,615	643,625
Distribution/collection system	15,054,504	1,385,938	260,299	16,180,143
Total depreciable capital assets	<u>16,093,276</u>	<u>1,406,395</u>	<u>333,914</u>	<u>17,165,757</u>
Total capital assets	<u>16,491,001</u>	<u>1,414,676</u>	<u>495,126</u>	<u>17,410,551</u>
Less accumulated depreciation:				
Buildings	46,199	13,213	-	59,412
Machinery and equipment	545,346	53,021	73,215	525,152
Distribution/collection system	7,912,385	391,061	22,110	8,281,336
Total accumulated depreciation	<u>8,503,930</u>	<u>457,295</u>	<u>95,325</u>	<u>8,865,900</u>
Net depreciable capital assets	<u>7,589,346</u>	<u>949,100</u>	<u>238,589</u>	<u>8,299,857</u>
Business-type activities capital assets, net	<u><u>\$ 7,987,071</u></u>	<u><u>\$ 957,381</u></u>	<u><u>\$ 399,801</u></u>	<u><u>\$ 8,544,651</u></u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 10,048
Public health and safety	64,859
Parks and recreation	178,188
Cemetery	5,817
General public works	40,393
Street system	598,733
Community development	816
Total governmental activities	
depreciation expense	<u><u>\$ 898,854</u></u>
Business-type activities:	
Electric	\$ 228,165
Water	93,792
Waste water	94,921
Wireless broadband	26,303
Development	14,114
Total business-type activities	
depreciation expense	<u><u>\$ 457,295</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE F – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE G – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system that were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE G – RETIREMENT PLANS (continued)

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final three-year average compensation.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation, with a maximum benefit of 80 percent of the member's final three-year average compensation.

As of December 1, 1997, all new hires which are part of the General Other and General Supervisor divisions are not covered under the defined benefit plans noted above, they are part of a separate defined contribution plan.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2007. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2007 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE G – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/07)

Actuarial Accrued Liability:		
Retirees and beneficiaries currently receiving benefits	\$	5,785,915
Terminated employees not yet receiving benefits		142,408
Current Employees:		
Accumulated employee contributions including allocated investment income		51,107
Employer financed		4,127,339
		<hr/>
Total actuarial liability		10,106,769
Net assets available for benefits, at actuarial value (market value is \$5,795,590)		5,728,761
		<hr/>
Unfunded (overfunded) actuarial accrued liability	\$	4,378,008
		<hr/>

GASB 27 INFORMATION (AS OF 12/31/07)

Fiscal year beginning		April 1, 2009
Annual required contribution (ARC)	\$	429,864
Amortization factor used - underfunded liabilities (28 years)		0.055889
Amortization factor used - underfunded liabilities (18 years)		0.07527
Amortization factor used - underfunded liabilities (30 year level \$)		0.085453

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2007 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE G – RETIREMENT PLANS (continued)

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 250,018	100%	-
2006	272,136	100%	-
2007	292,884	100%	-

The City was required to contribute \$315,233 for the year ended March 31, 2008. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities – Comparative Schedule

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2005	\$ 5,310,617	\$ 8,798,812	\$ 3,488,195	60%	\$ 1,079,937	323%
2006	5,555,587	9,458,205	3,902,618	59%	1,003,244	389%
2007	5,728,761	10,106,769	4,378,008	57%	1,054,942	415%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE G – RETIREMENT PLANS (continued)

<u>Year Ended March 31,</u>	<u>Number of Participants</u>	<u>City's Share</u>	<u>Employee's Share</u>
2006	22	\$ 85,087	\$ 22,289
2007	22	84,901	22,161
2008	21	91,243	24,556

NOTE H – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$148,590 are reported under governmental activities and \$91,015 is reported under business-type activities in the Statement of Net Assets.

NOTE I – POST RETIREMENT HEALTH BENEFITS

The City provides its employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

For the year ended March 31, 2008, the City has not performed an actuarial valuation for the post-employment health benefits and it is the City's policy to fund this benefit on a pay-as-you-go basis. The following is a summary of the post-employment health benefits:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE I – POST RETIREMENT HEALTH BENEFITS (continued)

For the Year Ended March 31,	Annual Cost	Number of Retiree's Receiving Benefits
2006	\$ 71,899	7
2007	89,037	7
2008	97,874	9

For the year ended March 31, 2008, there were 2 eligible retiree's who opted-out of the health insurance and received payment in-lieu-of in the amount of \$11,981, which is included in the amount above.

NOTE J – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2008:

Type of Debt	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008	Amounts Due Within One Year
Governmental Activities:					
Note - fire truck	\$ 73,733	\$ -	\$ 14,986	\$ 58,747	\$ 15,788
Note - vac truck	33,327	-	12,551	20,776	13,039
Note - rec building	-	8,710	1,097	7,613	1,150
Note - campground	136,828	-	12,951	123,877	14,125
D.D.A. bonds	310,000	-	95,000	215,000	105,000
1995 B.A. bonds	55,000	-	25,000	30,000	30,000
2000 B.A. bonds	680,000	-	-	680,000	40,000
Due to other					
governmental units	105,580	-	-	105,580	-
Compensated absences	133,276	15,314	-	148,590	29,718
Total governmental long-term debt	<u>\$ 1,527,744</u>	<u>\$ 24,024</u>	<u>\$ 161,585</u>	<u>\$ 1,390,183</u>	<u>\$ 248,820</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE J – LONG-TERM DEBT (continued)

Type of Debt	Balance April 1, 2007	Additions	Deductions	Balance March 31, 2008	Amounts Due Within One Year
Business-type Activities:					
Note - tanker truck	\$ 16,397	\$ -	\$ 5,329	\$ 11,068	\$ 5,626
2004 Waste Water bond	185,000	-	60,000	125,000	60,000
2004 Water bond	200,000	-	65,000	135,000	70,000
2006 Sludge Storage bond	62,889	1,027,829	-	1,090,718	45,000
Compensated absences	82,559	8,456	-	91,015	18,203
Total business-type long-term debt	<u>\$ 546,845</u>	<u>\$ 1,036,285</u>	<u>\$ 130,329</u>	<u>\$ 1,452,801</u>	<u>\$ 198,829</u>

Debt service requirements on long-term debt at March 31, 2008 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2009	\$ 44,102	\$ 7,924	\$ 175,000	\$ 46,145
2010	40,184	6,076	150,000	34,850
2011	113,880	4,517	40,000	29,000
2012	10,176	291	45,000	26,875
2013	1,386	96	45,000	24,625
2014-2018	1,285	29	270,000	85,000
2019-2023	-	-	200,000	15,250
	<u>\$ 211,013</u>	<u>\$ 18,933</u>	<u>\$ 925,000</u>	<u>\$ 261,745</u>
For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2009	\$ 5,626	\$ 609	\$ 175,000	\$ 25,024
2010	5,442	149	180,000	20,893
2011	-	-	50,000	16,180
2012	-	-	50,000	15,368
2013	-	-	50,000	14,555
2014-2018	-	-	265,000	60,346
2019-2023	-	-	280,000	38,246
2024-2028	-	-	300,718	14,683
	<u>\$ 11,068</u>	<u>\$ 758</u>	<u>\$ 1,350,718</u>	<u>\$ 205,295</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE J – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2008, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 4.5% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

During the year ended March 31, 2005, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,134 and bears an interest rate of 3.8%.

During the year ended March 31, 2006, the City signed a 48 month note for the construction of a bathroom facility at the City campground. The note calls for four annual payments of \$18,500 and one balloon payment of \$101,188 in 2010. The note bears an interest rate of 4.0%.

During the year ended March 31, 2008, the City signed an 84 month note for improvements made to the City's recreation building. The note calls for monthly principal and interest payments of \$124 and bears an interest rate of 4.68%.

Due to Other Governmental Units:

During the year ended March 31, 2005, the City was informed that they may not have properly distributed payment in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission (STC) and they have not received a resolution back from the STC. The City has estimated and recorded an amount of \$105,580 that would be due to other taxing units if that is what is required. A final amount cannot be determined until the City receives notice from the STC regarding final disposition of this issue.

Bonds Payable:

Bonds were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE J – LONG-TERM DEBT (continued)

Bonds were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

Bonds were issued May 4, 2000 for a total of \$891,190 at 5% in the name of the Building Authority for the purpose of paying the cost of acquiring, constructing and equipping a public safety building to be used by the City and have a final maturity of May 2020.

Business-type Activities:

As of March 31, 2008, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.

Bonds Payable:

2004 Waste Water System Bonds – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE J – LONG-TERM DEBT (continued)

2004 Water System Bonds – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

2006 Sewage Disposal System Bonds – On December 14, 2006 the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,090,718 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principle payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

NOTE K – BOND ISSUANCE COSTS

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	Bond Costs	Premium paid on 1994 Bonds	Total
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	15,783	7,400	<u>23,183</u>
			45,064
Less accumulated amortization			<u>(36,051)</u>
Net bond issuance cost			<u><u>\$ 9,013</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE L – RESTRICTED NET ASSETS

Restricted net assets as reported in the statement of net assets have been restricted in the amount of \$232,603 related to cemetery perpetual care, and \$30,055 related to proceeds from the Mary Cretens trust which are restricted for the purpose of city improvement and maintenance as required by the trust documents.

NOTE M – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Assets due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		General Fund	\$ 158,662
		Major Street Fund	46,013
		EDC Fund	16,412
		Gladstone Wireless Fund	128,393
		Local Street Fund	<u>19,889</u>
Electric Fund	<u>\$ 369,369</u>	Subtotal	<u>369,369</u>
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	<u>497</u>		
		General Fund	<u>3,973</u>
Subtotal	<u>3,973</u>		
Total	<u><u>\$ 373,342</u></u>	Total	<u><u>\$ 373,342</u></u>

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2008 were as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE M – INTERFUND BALANCES AND TRANSFERS (continued)

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 77,250	\$ -
Waste Water Utility	21,850	-
Water Utility	24,430	-
Nonmajor proprietary	4,800	44,213
Nonmajor governmental	127,421	-
	<hr/>	<hr/>
Total General Fund	255,751	44,213
	<hr/>	<hr/>
Capital Projects Fund	12,548	-
	<hr/>	<hr/>
Electric Utility	20,556	77,250
	<hr/>	<hr/>
Waste Water Utility	144,350	44,879
	<hr/>	<hr/>
Water Utility	138,274	47,459
	<hr/>	<hr/>
Total Nonmajor Funds	203,647	561,325
	<hr/>	<hr/>
Totals	\$ 775,126	\$ 775,126
	<hr/>	<hr/>

NOTE N – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE N – RISK MANAGEMENT (continued)

any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City's SIR. City of Gladstone's SIR and deductibles are as follows:

Table I
City Deductibles and Self Insured Retentions

COVERAGE	DEDUCTIBLE	SELF INSURED RETENTION
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	N/A
3. Property & Crime	\$250/Occurrence	State Pool Member

The City must satisfy all deductibles before any payments are made from the City's SIR or by MMRMA.

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City's SIR. The City's SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City's SIR and the Limits of Coverage stated in the Coverage Overview. City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City's SIR.

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2008, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE O – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2008.

During the year ended March 31, 2005, the City was informed that they had not properly distributed payment-in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission and is waiting for a determination as to the final disposition of this issue. A total amount owed has not been determined as of March 31, 2008, however an amount of \$105,580 has been recorded as a due to other governmental units in the statement of net assets as an estimate of the amount owed.

NOTE P – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2008

NOTE P – JOINT VENTURE – DELTA SOLID WASTE LANDFILL (continued)

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	23.7%
	<u>100.0%</u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

NOTE Q – SINGLE AUDIT

OMB Circular A-133 requires entities that expend more than \$500,000 in federal awards to have a single audit as outlined in the OMB Circular. For the year ended March 31, 2008, the City did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2008.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ 28,140	\$ 25,750	\$ 9,000	\$ (16,750)
State sources	553,000	555,400	546,884	(8,516)
Local sources	35,490	35,490	35,167	(323)
Taxes	1,339,500	1,339,500	1,364,790	25,290
Recreation	234,830	225,930	206,742	(19,188)
Public safety	49,650	45,900	31,116	(14,784)
Charges for services	60,550	60,650	74,453	13,803
Interest income	4,000	4,000	3,205	(795)
Loan proceeds	-	8,700	8,710	10
Miscellaneous	14,850	14,850	16,300	1,450
Total revenues	<u>2,320,010</u>	<u>2,316,170</u>	<u>2,296,367</u>	<u>(19,803)</u>
EXPENDITURES:				
General government:				
City commission	144,380	144,380	170,507	(26,127)
City manager	89,170	89,170	92,287	(3,117)
Elections	3,250	5,150	5,451	(301)
City assessor	66,410	66,410	64,392	2,018
Board of review	880	880	885	(5)
City treasurer	73,430	80,780	80,855	(75)
City clerk	89,170	95,370	95,966	(596)
City hall	81,610	81,610	59,086	22,524
Public health and safety:				
Police department	984,700	957,060	921,199	35,861
Fire department	242,640	236,600	194,791	41,809
Building and housing inspections	140,280	140,280	100,360	39,920
Parks and recreation:				
Recreation administrative	91,520	91,520	86,637	4,883
Harbor	55,240	54,840	51,209	3,631
Parks	49,770	49,770	48,857	913
Beach	42,030	42,030	34,582	7,448
Sports park	107,730	107,730	109,737	(2,007)
Campground	45,080	45,080	35,941	9,139
Miscellaneous	65,650	81,650	75,684	5,966
Cemetery:				
Cemetery administrative	16,810	16,810	13,300	3,510
Ground maintenance and burials	81,100	81,100	74,960	6,140
General public works:				
Forestry	14,000	14,000	11,588	2,412
Sidewalks	6,000	6,000	260	5,740
Grounds maintenance	4,850	4,850	5,210	(360)
Beautification	13,780	18,280	16,355	1,925
Capital outlay	48,500	76,140	45,494	30,646
Debt service	38,450	38,450	38,423	27
Total expenditures	<u>2,596,430</u>	<u>2,625,940</u>	<u>2,434,016</u>	<u>191,924</u>
Excess revenues (expenditures)	<u>(276,420)</u>	<u>(309,770)</u>	<u>(137,649)</u>	<u>172,121</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	331,780	331,780	255,751	(76,029)
Transfer out	-	-	(44,213)	(44,213)
Total other financing sources (uses)	<u>331,780</u>	<u>331,780</u>	<u>211,538</u>	<u>(120,242)</u>
Net changes in fund balances	55,360	22,010	73,889	51,879
Fund balances - beginning	<u>92,886</u>	<u>92,886</u>	<u>92,886</u>	<u>-</u>
Fund balances - ending	<u>\$ 148,246</u>	<u>\$ 114,896</u>	<u>\$ 166,775</u>	<u>\$ 51,879</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
REVENUES:				
State sources	\$ 305,000	\$ 305,000	\$ 914,788	\$ 609,788
Local sources	735,000	735,000	92,718	(642,282)
Interest income	1,500	1,500	772	(728)
Miscellaneous	2,500	2,500	5,871	3,371
Total revenues	1,044,000	1,044,000	1,014,149	(29,851)
EXPENDITURES:				
Street system	1,033,300	1,071,705	1,192,423	(120,718)
Excess revenues (expenditures)	10,700	(27,705)	(178,274)	(150,569)
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	(87,160)	(87,160)	-	87,160
Total other financing sources (uses)	(87,160)	(87,160)	-	87,160
Net changes in fund balances	(76,460)	(114,865)	(178,274)	(63,409)
Fund balances - beginning	96,716	96,716	96,716	-
Fund balances - ending	\$ 20,256	\$ (18,149)	\$ (81,558)	\$ (63,409)

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 140,000	\$ 140,000	\$ 139,694	\$ (306)
Local sources	24,120	24,120	12,165	(11,955)
Interest income	200	200	693	493
Miscellaneous	2,400	2,400	3,797	1,397
Total revenues	166,720	166,720	156,349	(10,371)
EXPENDITURES:				
Street system	248,880	264,165	221,485	42,680
Excess revenues (expenditures)	(82,160)	(97,445)	(65,136)	32,309
OTHER FINANCING SOURCES (USES):				
Transfer in	84,660	84,660	-	(84,660)
Transfer out	(2,500)	(2,500)	-	2,500
Total other financing sources (uses)	82,160	82,160	-	(82,160)
Net changes in fund balances	-	(15,285)	(65,136)	(49,851)
Fund balances - beginning	7,281	7,281	7,281	-
Fund balances - ending	\$ 7,281	\$ (8,004)	\$ (57,855)	\$ (49,851)

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Loan repayment	\$ 41,400	\$ 41,400	\$ 45,474	\$ 4,074
Interest income	5,000	5,000	14,334	9,334
Total revenues	46,400	46,400	59,808	13,408
EXPENDITURES:				
Community development	105,300	105,300	1,914	103,386
Excess revenues (expenditures)	(58,900)	(58,900)	57,894	116,794
OTHER FINANCING SOURCES (USES):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Net change in fund balance	(58,900)	(58,900)	57,894	116,794
Fund balances - beginning	26,038	26,038	26,038	-
Fund balances - ending	<u>\$ (32,862)</u>	<u>\$ (32,862)</u>	<u>\$ 83,932</u>	<u>\$ 116,794</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 120,000	\$ 120,000	\$ -	\$ (120,000)
State Sources	505,000	505,000	505,000	-
Local Sources	-	-	15,200	15,200
Bond Proceeds	900,000	900,000	1,027,829	127,829
Miscellaneous	10,000	10,000	7,000	(3,000)
Total revenues	1,535,000	1,535,000	1,555,029	20,029
EXPENDITURES:				
Capital Outlay	1,535,000	1,535,000	1,611,556	(76,556)
Excess revenues (expenditures)	-	-	(56,527)	(56,527)
OTHER FINANCING SOURCES (USES):				
				-
Transfer in	-	-	12,548	(12,548)
Net change in fund balance	-	-	(43,979)	(69,075)
Fund balances - beginning	(58,675)	(58,675)	(58,675)	-
Fund balances - ending	\$ (58,675)	\$ (58,675)	\$ (102,654)	\$ (69,075)

COMBINING FUND FINANCIAL STATEMENTS

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2008**

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	21,213	(26,829)	(18,637)	3,091
Receivables:				
Accounts	-	37,199	-	-
Interest	-	-	-	-
Prepaid expenditures	-	-	-	-
Due from other governmental units	679	16,675	27,634	-
Total assets	<u>\$ 21,892</u>	<u>\$ 27,045</u>	<u>\$ 8,997</u>	<u>\$ 3,091</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 5,354	\$ 8,997	\$ -
Due to other governmental units	-	-	-	-
Deferred revenue	21,892	-	-	-
Total liabilities	<u>21,892</u>	<u>5,354</u>	<u>8,997</u>	<u>-</u>
Fund balances:				
Reserved for:				
City improvement	-	-	-	-
Cemetery perpetual care	-	-	-	-
Unreserved	-	21,691	-	3,091
Total fund balances	<u>-</u>	<u>21,691</u>	<u>-</u>	<u>3,091</u>
Total liabilities and fund balances	<u>\$ 21,892</u>	<u>\$ 27,045</u>	<u>\$ 8,997</u>	<u>\$ 3,091</u>

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Habitat Rehab M-2006-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ - (10,563)	\$ 30,031 -	\$ - (357)	\$ - -	\$ - -	\$ 232,572 -	\$ 262,603 (32,082)
-	-	14,186	-	-	-	51,385
-	24	-	-	-	31	55
-	-	-	-	-	-	-
10,639	-	43,828	-	-	-	99,455
<u>\$ 76</u>	<u>\$ 30,055</u>	<u>\$ 57,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,603</u>	<u>\$ 381,416</u>
\$ -	\$ -	\$ 1,343	\$ -	\$ -	\$ -	\$ 15,694
-	-	54,964	-	-	-	54,964
-	-	-	-	-	-	21,892
-	-	56,307	-	-	-	92,550
-	30,055	-	-	-	-	30,055
-	-	-	-	-	232,603	232,603
76	-	1,350	-	-	-	26,208
76	30,055	1,350	-	-	232,603	288,866
<u>\$ 76</u>	<u>\$ 30,055</u>	<u>\$ 57,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,603</u>	<u>\$ 381,416</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2008

	Special Revenue Funds			
	State Trunkline	Solid Waste	MSHDA Rental Property MSC-06-0717-NPP	MSHDA Homeowner
REVENUES:				
Federal sources	\$ -	\$ -	\$ 159,335	\$ -
State sources	9,227	-	-	-
Local sources	-	-	22,010	-
Taxes	-	168,954	-	-
Charges for services	-	212,461	-	-
Lease income	-	-	-	-
Interest income	-	472	-	-
Miscellaneous	-	3,766	-	-
Total revenues	\$ 9,227	\$ 385,653	\$ 181,345	\$ -
EXPENDITURES:				
Public health and safety	\$ -	\$ -	\$ 181,345	\$ -
Cemetery	-	-	-	-
General public works	-	358,611	-	-
Street system	9,227	-	-	-
Community development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	9,227	358,611	181,345	-
Excess revenues (expenditures)	-	27,042	-	-
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net changes in fund balances	-	27,042	-	-
Fund balances - beginning	-	(5,351)	-	3,091
Fund balances - ending	\$ -	\$ 21,691	\$ -	\$ 3,091

See accompanying notes to financial statements.

Special Revenue Funds			Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
MSHDA Habitat Rehab M-2006-0717	Mary Cretens Trust	Downtown Development Authority	Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ 10,544	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169,879
-	-	-	-	-	-	9,227
95	130,933	20,946	-	-	2,543	176,527
-	-	340,269	-	-	-	509,223
-	-	-	-	-	-	212,461
-	-	-	97,034	-	-	97,034
-	1,037	100	-	-	5,716	7,325
-	-	1,967	-	-	-	5,733
<u>\$ 10,639</u>	<u>\$ 131,970</u>	<u>\$ 363,282</u>	<u>\$ 97,034</u>	<u>\$ -</u>	<u>\$ 8,259</u>	<u>\$ 1,187,409</u>
\$ 10,563	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 191,908
-	-	-	-	-	265	265
-	-	-	-	-	-	358,611
-	-	-	-	-	-	9,227
-	-	154,929	-	-	-	154,929
-	-	-	60,000	95,000	-	155,000
-	-	-	38,120	18,375	-	56,495
<u>10,563</u>	<u>-</u>	<u>154,929</u>	<u>98,120</u>	<u>113,375</u>	<u>265</u>	<u>926,435</u>
<u>76</u>	<u>131,970</u>	<u>208,353</u>	<u>(1,086)</u>	<u>(113,375)</u>	<u>7,994</u>	<u>260,974</u>
-	-	-	-	113,375	-	113,375
-	(129,452)	(118,175)	-	-	(5,717)	(253,344)
-	(129,452)	(118,175)	-	113,375	(5,717)	(139,969)
76	2,518	90,178	(1,086)	-	2,277	121,005
-	27,537	(88,828)	1,086	-	230,326	167,861
<u>\$ 76</u>	<u>\$ 30,055</u>	<u>\$ 1,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,603</u>	<u>\$ 288,866</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
March 31, 2008

	Economic Development Corporation	Land Development	Gladstone Wireless	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (12,707)	\$ -	\$ (62,116)	\$ (74,823)
Receivables:				
Accounts	-	-	929	929
Notes	13,696	-	-	13,696
Total current assets	<u>989</u>	<u>-</u>	<u>(61,187)</u>	<u>(60,198)</u>
Noncurrent assets:				
Notes receivable	193,079	-	-	193,079
Capital assets	60,994	-	264,549	325,543
Less accumulated depreciation	<u>(27,373)</u>	<u>-</u>	<u>(98,828)</u>	<u>(126,201)</u>
Total noncurrent assets	<u>226,700</u>	<u>-</u>	<u>165,721</u>	<u>392,421</u>
Total assets	<u><u>\$ 227,689</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 104,534</u></u>	<u><u>\$ 332,223</u></u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 440	\$ -	\$ 593	\$ 1,033
Noncurrent liabilities:				
Due to other funds	<u>16,412</u>	<u>-</u>	<u>128,393</u>	<u>144,805</u>
Total liabilities	<u><u>\$ 16,852</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 128,986</u></u>	<u><u>\$ 145,838</u></u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 33,621	\$ -	\$ 165,721	\$ 199,342
Unrestricted	<u>177,216</u>	<u>-</u>	<u>(190,173)</u>	<u>(12,957)</u>
Total net assets	<u><u>\$ 210,837</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (24,452)</u></u>	<u><u>\$ 186,385</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2008

	Economic Development Corporation	Land Development	Gladstone Wireless	Total Nonmajor Enterprise Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ -	\$ 46,501	\$ 46,501
Miscellaneous	34,726	-	350	35,076
Total operating revenue	34,726	-	46,851	81,577
OPERATING EXPENSES:				
Salaries and fringes	\$ -	\$ -	\$ 8,693	\$ 8,693
Supplies	26	61,500	1,940	63,466
Contracted services	3,626	1,660	31,169	36,455
Utilities	-	-	1,364	1,364
Rent	26	-	-	26
Insurance	-	-	222	222
Depreciation	2,039	12,075	26,303	40,417
Miscellaneous	11,720	113,836	-	125,556
Total operating expenses	17,437	189,071	69,691	276,199
Operating income (loss)	17,289	(189,071)	(22,840)	(194,622)
NONOPERATING REVENUES (EXPENSES):				
Interest income	9,652	-	-	9,652
Total nonoperating revenue (expense)	9,652	-	-	9,652
Income (loss) before transfers and contributions	26,941	(189,071)	(22,840)	(184,970)
Transfer in	-	90,272	-	90,272
Transfer out	(4,800)	(303,180)	-	(307,980)
Change in net assets	22,141	(401,979)	(22,840)	(402,678)
Total net assets - beginning	188,696	401,979	(1,612)	589,063
Total net assets - ending	\$ 210,837	\$ -	\$ (24,452)	\$ 186,385

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2008

	Economic Development Corporation	Land Development	Gladstone Wireless	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 47,015	\$ -	\$ 46,673	\$ 93,688
Payments to suppliers	(15,058)	(176,996)	(37,006)	(229,060)
Payments for wages and related benefits	-	-	(8,693)	(8,693)
Other receipts (payments)	(16,705)	17,288	-	583
Net cash provided (used) by operating activities	15,252	(159,708)	974	(143,482)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	(4,800)	(212,908)	-	(217,708)
Net cash provided (used) by noncapital financing activities	(4,800)	(212,908)	-	(217,708)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	-	-	(9,567)	(9,567)
Sale of fixed assets	-	417,015	-	417,015
Net cash provided (used) by capital and related financing activities	-	417,015	(9,567)	407,448
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earnings	9,652	-	-	9,652
Net cash provided (used) by investing activities	9,652	-	-	9,652
Net increase (decrease) in cash and equivalents	20,104	44,399	(8,593)	55,910
Cash and equivalents, beginning of year	(32,811)	(44,399)	(53,523)	(130,733)
Cash and equivalents, end of year	<u>\$ (12,707)</u>	<u>\$ -</u>	<u>\$ (62,116)</u>	<u>\$ (74,823)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 17,289	\$ (189,071)	\$ (22,840)	\$ (194,622)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	2,039	12,075	26,303	40,417
Changes in assets and liabilities:				
(Increase) decrease in receivables	12,289	61,501	(178)	73,612
Increase (decrease) in accounts payable	340	-	(2,311)	(1,971)
Increase (decrease) in due to other funds	(16,705)	(44,213)	-	(60,918)
Net cash provided by operating activities	<u>\$ 15,252</u>	<u>\$ (159,708)</u>	<u>\$ 974</u>	<u>\$ (143,482)</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2008

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,425

ELECTRIC UTILITY FUND:

K.W.H. purchased	34,650,834
K.W.H. sold	<u>33,228,073</u>
K.W.H. lost (4.11%)	<u>1,422,761</u>
Revenue from sales	<u>\$ 3,641,185</u>
Average number of meters	3,192
Estimated street light K.W.H. used	254,000

WATER UTILITY FUND:

Gallons pumped into plant	150,423,600
Gallons used in plant and for system maintenance	<u>5,549,970</u>
Gallons pumped to mains	144,873,630
Gallons sold	<u>123,425,000</u>
Gallons lost (14.8%)	<u>21,448,630</u>
Revenue from sales	<u>\$ 622,195</u>
Average number of meters in service	2,233

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 721,556</u>
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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, MI 49837

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2008, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gladstone, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gladstone, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gladstone, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Gladstone, Michigan's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Deficiency – Material audit adjustments were required to properly accrue revenues and expenditures and to properly classify activity.

Management Response – In future years, we will make an effort to properly accrue all revenues and expenditures and to properly classify activity.

2. Deficiency – During physical observation of inventory at year end, there were several items which were selected where the physical count did not match the inventory listing in the Electric Fund.

Management Response – The Electric Department will continue to improve the process of tracking inventory.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gladstone, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies listed above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gladstone, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below:

1. Condition – The City had deficit unreserved fund balances/unrestricted net assets in several funds.

Management Response – A deficit elimination plan will be filed with the Michigan Department of Treasury.

We also noted certain other matters that we reported to management of the City of Gladstone, Michigan in a separate letter dated August 8, 2008.

The City of Gladstone, Michigan's response to the findings identified in our audit is described above. We did not audit the City of Gladstone, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 8, 2008

CITY OF GLADSTONE, MICHIGAN

REPORT TO MANAGEMENT

Year Ended March 31, 2008



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

August 8, 2008

To the City Commission
City of Gladstone, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone for the year ended March 31, 2008, and have issued our report thereon dated August 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Gladstone. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the City of Gladstone's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 26, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Gladstone are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or

consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets for the purpose of calculating depreciation expense is based on management's knowledge of similar assets and the intended use of those assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: to properly accrue receivables and payables, record fixed asset additions along with adjusting depreciation expense and to properly classify activity.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 8, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and

recommendations regarding those matters. This letter does not affect our report dated August 8, 2008, on the financial statements of the City of Gladstone.

This information is intended solely for the use of City Commission and management of the City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Anderson, Tackman & Company P.L.L.C." in a cursive, flowing script.

Anderson, Tackman & Company, PLC
Certified Public Accountants

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2008

Light Deposits

Comment:

During our testing of the light deposit payable, we noted that the general ledger reflects \$2,920 more in light deposits than the utility billing system.

Recommendation:

We recommend that the general ledger and the utility billing system be reconciled on a monthly basis so light deposits payable is accurately reflected in both systems.

Management Response:

The City no longer charges a light deposit and as renters move, this account will be zeroed out.

Distribution of Real, Personal Property and IFT Taxes

Comment:

The General Property Tax Act states that within ten business days after the first and fifteenth day of each month, local tax collecting units must account for and deliver to the county treasurer and other tax assessing units, the tax collections on hand on the first and fifteenth day of each month. This requirement was not followed consistently throughout the year.

Recommendation:

Taxes collected by the City should be remitted to the other taxing units as required by the General Property Tax Act.

Management Response:

The City will adhere to the General Property Tax Act to the best of its ability.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2008

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

(1) The following funds had deficit unreserved fund balances/unrestricted net assets:

Governmental funds:		
Major Steet	\$	93,750
Local Steet		57,855
Capital Projects		102,654
Proprietary funds:		
Gladstone Wireless		190,173
Water Utility		116,789
Equipment Fund		196,962

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations and the City file a deficit elimination plan with the Department of Treasury.

Management Response:

If expenditures exceed budgeted amounts in the future, the budget will be amended prior to the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2008

Miscellaneous Accounts Receivable

Comment:

We noted many miscellaneous accounts receivable balances listed which were several years old.

Recommendation:

The City should review these receivables and determine if they are valid and pursue collection if they found to have merit.

Management Response:

The City staff continues to monitor these receivables regularly. The City has a relationship with Northern Service Bureau, if the invoices cannot be collected at the local level, they will be turned over to the collection agency.

Inventory Control

Comment:

During our testing of inventory for the electric department, we noted that items removed from inventory are not always documented and accounted for. We also noted during our physical inventory count at year end, there were discrepancies between the physical count and the inventory listing. We also noted items which were on the list and should not have been, and items that were not on the list and should have been. Also, it was difficult for the electric department to locate certain types of wire which were on the list when we were doing our physical counts.

Recommendation:

When items are taken out of inventory, they should be documented and accounted for in a manner that allows for the proper charge-off and recording of these items in order to enhance the internal controls over the inventory process. The City should also take steps to ensure that the internal controls are improved regarding the electric fund inventory to ensure accurate counts are performed and documented through the inventory control system.

Management Response:

The Electric Department will continue to improve the process of tracking inventory.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2008

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Gladstone being required to implement the Statement for the year ended March 31, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning April 1, 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

To the City Commission and Management
of the City of Gladstone

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Laura L. Schwalbach, CPA

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Gladstone's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- There were several discrepancies noted during our physical count of the Electric Fund inventory.
- Material audit adjustments were required to properly accrue revenues and expenditures and to properly classify activity.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that both of the significant deficiencies noted above constitute material weaknesses.

This communication is intended solely for the information and use of management, the City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 8, 2008